

PUBLIC EMPLOYEES RETIREMENT BOARD
Employee Investment Advisory Council
100 North Park
Helena MT 59601
April 13, 2005

Kathy Samson; Council Chair with the following in attendance, called the meeting to order:

Council Members:

Tom Schneider, Labor Organization Representative
Tom Bilodeau, Labor Organization Representative
Angela McDannel, State Employee Representative
John Northey, State Employee Representative
Glen Leavitt, University System Representative
Ron Alles, Local Government Employee Representative
Terrence Smith, Local Government Employee Representatives
Pam Fleisner, School District Employee Representative
Jim Christnacht, Retired Public Employee Representative

Council Member not present: Kevin McRae, State Employee Representative

Council Members who were excused: Carroll South, Board of Investments Representative

James Helgeson, Local Government Employee Representative

Others in attendance are as follows: MPERA staff: Carolyn Miller, Melanie Symons, and Rob Virts. Scott Faris of Arnerich Massena & Associates, Inc. presented the Annual 401 Fund Review and the Responses to Questions raised by AM & A in regard to the Great-West Life Profile Funds.

HOUSEKEEPING ITEMS

Tom Schneider moved to accept the amended minutes of the March 9, 2005 EIAC meeting; Jim Christnacht made the second. The motion passed with eight votes in favor. (One council member arrived later).

ANNUAL 401(a) FUND REVIEW

Ron Alles moved to **place** *Brown Capital Small Company Institutional* **on watch**; the rationale was this Small Cap Domestic Equity fund has a 3-year history of under performance and has not met the established IPS benchmarks. Tom Schneider made the second, the motion passed with nine votes in favor.

Ron Alles moved to **replace** and review the options to replace *SSGA International Growth Opportunities*. This International Equity fund has been on watch for the last year; continuing to under-perform and not meet established IPS criteria. Glen Leavitt made the second; the motion passed with 9 votes in favor. Scott Faris will throw another index fund into his search.

457 DEFERRED COMPENSATION PLAN
MANAGER SEARCH RESULTS AND RECOMMENDATIONS

John Northey moved to recommend the PERB **replace** the Columbia High Yield Bond Fund with the **Neuberger Berman High Income Bond Fund**. The rationale was the up & down market capture for Neuberger Berman is more defensive and less volatile. Ron Alles made the second; which passed with eight in favor and one opposed. Tom Schneider opposed due to his preference to wait for the last quarter data on Met West.

Ron Alles moved to **add** the **Munder Small Cap Value Y fund** to the Small Cap Value Options. The Munder Small Cap Value fund is performing well and has a good track history. It will provide a good small cap value opportunity or vehicle, specifically for new Plan participants who may not want to use either of the other small cap investment options due to their watch status. Glen Leavitt made the second; which passed with nine votes in favor.

457 DEFERRED COMPENSATION PLAN SURVEY SUMMARY

May 2003 PERB accepted EIAC recommendation to conduct a 457 Plan Survey. U of M Bureau of Business and Economic Research conducted the survey from 12/20/04 to 01/12/05, to determine interest in custom/asset allocation funds, why participants invest the way they do, and what types of education they need or want.

- 1) Plan Design - Plan satisfaction: 89% - Right # of Investment Options: 71% - Ability to Diversify: 84%
- 2) Investment Knowledge - Objectives - Experienced Investors: 32% - Diversification through all investments: 65%
- 3) How they manage their investments - Willing to increase risk for higher return: 30% - Review asset allocations: 48%
- 4) Asset Allocation Funds:
 - a. Automatic Program: Want professional account management: 58% - Want to manage themselves: 38% - Want to allocate themselves vs. a program doing it: 52%; 38% would use a program. If we had an program: 84% folks who would use it want it to be based on both risk tolerance and years to retirement.
 - b. Great West Profile Funds: Never used a GW profile fund: 80% - Did not know if they had used a GW profile fund: 13%. Of the 7.5% who had used a GW profile fund; only 44% are currently using, 23% are not sure if they are still using them, 36% are using other options in the plan, which may conflict with diversification.
- 5) How they prefer to learn or receive information – Prefer home mailing: 55% - Prefer website info: 20%. 42% are currently using a financial advisor. 65% would use these services if we provided them, but only 21 % would be willing to pay for the services. The remaining 46% felt it would depend on the cost.

26% have attended GW workshops, 86% of this group said the workshop was helpful; but 65% said it did not cause them to make any behavioral changes. 15% had a one on one with a GW account executive, of that group 90% found it helpful; but it did not initiate changes for 59% of that group.

The survey asked if participants had other investments in addition to the 457 Plan such as additional retirement plans, home, business, college funds, stocks, bonds, annuities, mutual funds, other real estate, or cash. It also asked: Thinking

about the 457 Plan in relation to all of your other investments, what % does the 457 plan make up total investment. 66% felt the current dollar amount of their investment in the State of Montana 457 Plan made up less than half their total investments. Rising health insurance premiums had no effect on the ability of 80% of our 457 members to contribute and 52% to contribute to Flexible Spending Accounts or College Savings Plans.

Conclusions: 83% are satisfied with the investment options – the group who felt there were not sufficient options to diversify were higher educated and had higher household income of \$100k or more. A large portion said they would prefer to manage themselves and a small percentage are utilizing profile funds.

Ron Alles feels participants may want a Self Service Brokerage Option and sees a need to target the lower income participants. Ron thinks it is positive that only 40% of the members who met with GW changed their investment options, and it reflects that most participants are comfortable with what they are doing. He feels EIAC can't disregard the 34% who would like more options; this does not mean they are not satisfied with the current options. Ron confirmed that this survey did not hit those who are currently non-participants. He would like to benchmark this data in five years.

Glen Leavitt asked for a breakdown of the 6% who are not preparing for retirement; 2.1 % are preparing for education - 2.8% were other, and .7% did not know. The survey does not state the percentage of house ownership in the total investments. Glen felt EIAC could correlate the statistic of the folks who want to allocate themselves; their access to GW workshops and one on one meetings with the statistic of the income, to see if the folks who had the income and discretionary ability to invest actually go to the workshops or if they work with a financial advisor or broker. Glen felt it would be nice to see if the ones who want to manage their own account actually do or if they are all in the fixed. A plan objective could be to administer to those employees who are not participating in the 457 Plan.

Kathy Samson felt the survey results are positive; concluded that due to high participant satisfaction, the cost associated with changes may not add value. Our plan is not the totality of all investments for a significant portion of our participants. The core response indicates folks want to be in the stable value.

Folks are not using the asset allocation funds. As there is minimal interest in automatic allocations; we may want to initiate more exploration as to whether participants understand the concept of automatic asset allocation or not. Is it worthwhile to spend \$42K to create 3 custom allocation funds with such marginal interest especially if all participants will pay? One year ago Ron Alles felt \$42K would be better spent to build an education platform that could benefit more participants than 3 custom allocation funds will.

Kathy feels that the members who need the most help are those with lower income, less experience, and less knowledge and states that EIAC and the PERB have never defined a primary objective of this plan.

John Northey feels the survey results indicate that folks would like the lower risk of index funds. The survey indicates folks are not using our plan for investing, they don't know what they're doing, and they don't understand what asset allocation means. John feels the outside investments explain why folks are not using the profiles. If 65% are diversified through all of their investments they have outside investments that a profile fund in our plan would not encompass. He

feels that home equity is the largest asset that most people have and including the home ownership in the total investments skews the survey results.

The fact that the GW workshops and one on one meetings do not initiate a large percentage of behavioral changes may be a reflection the participants are receiving confirmation that what they're doing is appropriate for where they should be. John states that over the years EIAC has received several letters from folks who are not happy with investment options requesting SDBOs. He feels 89% satisfaction is great; be careful about modifying the plan to please one squeaky wheel. John complimented the presentation and agrees if it is not broken don't fix it.

Pam Fleisner felt the more sophisticated investors are going to handle their own accounts and the others would rely on their comprehension of what is out there.

Tom Schneider felt that you could not expect the level of folks who want to allocate themselves to be too high since only 25% had attended GW workshops and 15% had a one on one meeting. One problem is GW is not always outside of the high-density employee areas to talk to participants. Tom confirmed that there was no breakdown of how many of the 44% who wanted additional services; would like loans or SDBOs. He hears about participants wanting loans.

Jim Christnacht wonders if the 40-45% of lower income levels who want the plan to allocate for them is because they don't know what asset allocation is. Jim confirmed that the 401a participants have the same services that the 457 plan participants do.

PENDING WORK

- 1) Print, distribute, and further discuss 457 Plan Survey results
- 2) MPERA is working with the PERB on the education policy and primary objective of this plan
- 3) Have Arnerich Massena & Associates, Inc do some planning relative to plan design and duplication of investment options with the DCRP.
- 4) Make decision on pursuing Custom Asset Allocation funds
- 5) Review the Investment Policy Statement earlier than in the past
- 6) Look at the structure of the two plans together before they look at the RFP
- 7) Close the Great West Contract in two years
- 8) Consider adding custom items to the contract when it is bid in one year. The market for 457 Plan providers is extremely competitive. Arnerich Massena & Associates, Inc is receiving very attractive pricing proposals from providers with lots of services.
- 9) Consider survey for non-participants in the 457 Plan

CLOSING BUSINESS

Scott Faris will present his manager search to replace SSGA International Growth Opportunities via teleconference.

Kathy Samson adjourned the meeting.